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What Oil Companies See In Quick Lubes
Why Industry Wants Oil Spill Legislation

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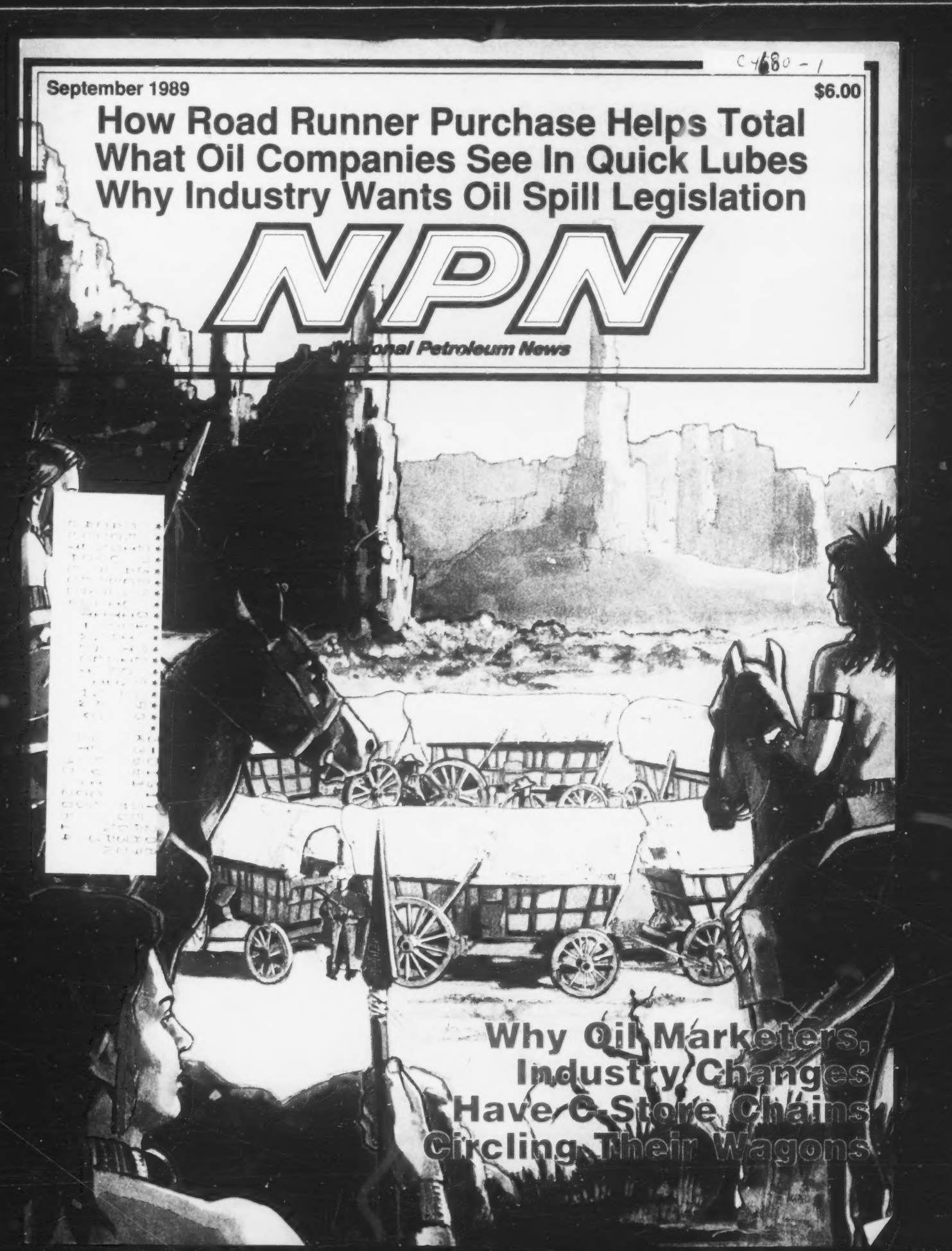

Why Oil Marketers, Industry Changes Have C-Store Chains Circling Their Wagons

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Editor's Viewpoint

There's little, if any, doubt that the convenience store industry is now in the midst of a transformation shaped by forces from both within and outside of the industry itself. One of the most significant developments in recent years, as this month's cover story notes, is the continued rapid and growing influx of oil companies and jobbers into the C-store market.

Jobbers no doubt have good reasons for entering or expanding their operations in the C-store business—but a caution light should be flashing. There'll be a lot of people chasing their tails in that market in the next few years and, unfortunately, some will catch them. A shakeout, say some industry watchers, is inevitable; others say it's already underway.

That's not to say that jobbers should necessarily shy away from C-stores. In fact, one industry analyst thinks jobbers probably have the best chance of succeeding. They operate, he says, fewer stores within smaller marketing areas than the large, multi-state chains, which means that their administration and control is less of a problem and less costly. Also, jobbers have a keen understanding of their market, so they'll target the best locations for stores and tailor them to meet the specific demands of the specific locales.

Just the same, many parts of the country are saturated with C-stores and the intense competition has hammered down per-store sales, prices and profits. And total overall convenience store sales nationally increased only 2.7%, according to the National Assn. of Convenience Stores, from $59.6-billion in 1987 to $61.2-billion in 1988—a sharp drop from the 10.7% increase in 1987 and even lower than the relatively small 4.9% increase of 1986. This may reflect what John Roscoe, author of the *Dollars Per Day Survey*, says is a shift in consumer attitudes. Roscoe, a former C-store operator who now runs a string of discount food and liquor stores on the West Coast, says more consumers are more price conscious these days and don't believe convenience is worth the higher prices charged at C-stores. He estimates this price sensitive mass market consumer represents about 90% of demand for most items, leaving only the remaining 10% for the convenience segment.

Meanwhile, the average cost of operating a C-store continues to escalate, as does building a store. From 1984 to 1988, says NACS, the cost of opening a C-store in an urban area increased more than 55%; in a rural area, by 49.4%

Higher costs, more competition vs. sagging sales and lower profits. Risky business. The C-store market is hostile territory. That's not exactly unfamiliar turf for most jobbers, but it warrants a very careful and cautious approach.

— Frank Victoria

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Traditional C-store chains are circling their wagons in the face of increasing competition from oil companies and jobbers as well as continuing changes within the industry itself. **Page 36**

Oil companies initially dabbled in the quick lube market. Now, however, the dabbling has turned into a full-fledged plunge. **Page 64**

With the purchase of Truman Arnold's Road Runner chain, Total Petroleum has suddenly become a significant factor in U.S. gasoline marketing. **Page 68**

2nd Quarter Profits Waffle As Wholesale Trail Crude

Street prices for gasoline rose briskly in the second quarter but rising crude costs and lagging wholesale sales took the edge off what could have been a nice fat period upstream and downstream for all.

Shell and Marathon were standouts, however, with earnings increases of 60.6% and 116%. Arco and Phillips posted earnings increases of 16.8% and 15.9%.

Amerada Hess, which had a weak first half in 1988, bounced back with net earnings of $353.7-million, an increase of 738% for the six-month period.

As it has several times in the past, Marathon made its owner, USX Corp., look good again. Marathon doubled its operating profits in the second quarter, enabling USX to report a 17.3% increase. An interesting offshoot of Marathon's performance was the wording used by the New York Times financial writer in describing USX as the "giant oil and steel company." Up to now it has been pretty well the other way around.

Battered Exxon, still reeling from its Alaskan oil spill agonies, said it would have earned $1-billion more than the $160-million it reported if it hadn't been for that industrial catastrophe.

UPSTREAM: SECOND-QUARTER AND FIRST-HALF EARNINGS

(Millions of Dollars)

Company	2nd Qtr 1989	2nd Qtr 1988	% Chng	1st Half 1989	1st Half 1988	% Chng
Exxon	$160.0	$1,200.0	(86.7%)	$1,430.0	$2,655.0	(46.1%)
Mobil	401.0	519.0	(22.7)	830.0	1,068.0	(22.3)
Chevron	404.0	520.0	(22.3)	717.0	1,173.0	(38.9)
Amoco	497.0	667.0	(25.5)	955.0	1,136.0	(15.9)
Shell	440.0	274.0	60.6	801.0	663.0	20.8
Texaco	366.0	464.0	(21.1)	1,821.0	734.0	140.0
BP-America	631.0	520.0	21.3	1,151.0	975.0	18.1
Arco	467.0	400.0	16.8	1,170.0	801.0	46.2
Phillips	197.0	170.0	15.9	387.0	300.0	29.0
Conoco	115.0	137.0	(16.1)	332.0	249.0	33.3
Unocal	120.0	64.0	87.5	207.0	242.0	(16.9)
Marathon*	257.0	119.0	116.0	498.0	203.0	145.3
Sun	105.0	(291.0)	--	186.0	(141.0)	--
Coastal	35.3	38.6	15.5	95.7	77.1	24.1
Amer. Hess	133.5	(23.5)	--	353.7	42.2	738.2
Pennzoil	118.0	1,388.7	(91.5)	170.0	1,400.0	(87.9)
Ashland**	43.5	56.9	(23.6)	125.6	157.7	(20.4)
Kerr-McGee	34.7	35.9	(3.3)	98.6	46.1	113.9
Petrofina	41.8	34.4	21.5	90.6	64.8	39.8
Murphy	16.8	9.4	(78.7)	32.2	3.0	673.3
Citgo	39.2	33.9	15.6	75.8 7	5.7	--

DOWNSTREAM: Ups, Downs and Standstills

Exxon (Tot)	$232	281	(17.4)	379	712	(46.8)
Foreign	133	118	(26.5)	240	518	(53.7)
Domestic	99	100	(1.0)	129	194	(28.4)
Mobil (Tot)	100	260	(61.5)	225	482	(53.3)
Foreign	(11)	171	--	38	292	(87.0)
Domestic	111	89	24.7	187	190	(1.6)
Chevron (Tot)	166	123	35.0	216	322	(32.9)
Foreign	63	32	96.9	106	97	9.3
Domestic	103	91	13.2	110	225	(51.1)
Amoco						
Worldwide	213	206	3.4	327	312	4.8
Shell (U.S.)*	132	103	28.2	243	233	4.3
Texaco (Tot)	208	175	18.9	335	333	0.6
Foreign	128	65	96.9	221	130	70.0
Domestic	80	110	(27.3)	114	203	43.8
BP-America	188	121	55	356	240	48.3
Arco (U.S.)	91	72	26.4	108	159	(32.1)
Phillips (U.S.)	62	66	(6.1)	113	115	(1.7)
Marathon*	169	107	57.9	235	136	72.8
Sun (Tot)	72	79	(8.9)	151	121	24.8
Foreign	7	1	600.0	19	3	533.3
Domestic	65	78	(20.0)	13	118	11.9

*Operating income, not net; **Third quarter, fiscal ends 9/30/89

● TRENDS

Crude Prices In '90s May Not Be That Bad

How high are crude oil prices really going to get in the '90s? And what about that turn-of-the-century, now only 10 years away? In recent times, "guesstimates" and speculation have produced projections up to $100/bbl.

That could happen, of course, but the probability factors have all but deflated that sort of an economic nightmare—at least for now. On the other hand, there is a warming feeling that crude oil price increases may be relatively moderate in the years ahead. By 2000 A.D., the optimists think, crude prices should still be well under the wild days of 1979-1980 when they doubled and tripled and sent product prices skyrocketing and $40 to $50/bbl. crude wasn't unusual. Neither were $1.40 regular and $1.60 premium gasolines.

Conoco, which only recently resumed making long-term projections after a two-year sabbatical, says it believes that crude oil prices will remain below the $20/bbl. level, where they are now, until the mid-'90s, at which time they will have risen to about $24/ bbl.

This is based on the idea that the Organization of Petroleum Exporting Countries will opt for moderate pricing formulas in the 1990s despite the growing dependence of the United States on imports. A Conoco analyst says: "I think OPEC learned some lessons by setting the price too high in the past."

The federal government is tilting in that direction too. Its recent Annual Outlook for Oil and Gas used the conventional three-tiered high-low-base forecast. Significantly, the highest price projection it made for 2000 was $35/bbl. That's a bit steep, of course, but it's still below the average landed prices of $38 to $39/bbl. in 1981. This forecast is shown in Chart A.

Everybody's entitled to a guess and a prediction, of course and further along in its recent report the government economists show that others are about in the same ball park. They matched their 1989 and 1987 forecasts with those of Data Resources, Inc., Wharton Econometric Forecasting Associates, Gas Research Institute and American Gas Assn. That's shown in Chart B.

All of the projections are tied in closely with Gross National Product (GNP) expectations. Chart C shows what the various prognosticators (excluding AGA, which had no data available) foresee for the Real GNP in terms of billions of 1988 dollars. *— by J. Richard Shaner*

CHART A

World Crude Oil Price
(1988 dollars per bbl.)

	1988	1990	1995	2000
Base	$14.64	$15.00	$20.60	$28.00
Low Price	14.64	12.89	16.70	21.70
High Price	14.64	18.00	24.40	35.00

CHART B

World Crude Oil Price *
(1988 dollars per bbl.)

	1988	1990	1995	2000
Federal '89	$14.64	$15.00	$20.60	$28.00
Federal '88	17.39	18.43	23.18	31.84
DRI	14.92	16.10	18.48	24.43
WEFA	14.77	13.08	16.95	21.19
GRI	18.98	21.32	24.18	28.08
AGA	16.17	16.34	20.00	24.48
Average	16.15	16.71	20.57	26.34

** U.S. refiners average acquisition cost of crude oil.*

CHART C

(Billions of dollars)

	1988	1990	1995	2000
Federal '88	$4,851	$5,119	$5,775	$6,517
Federal '87	4,717	4,975	5,576	6,179
DRI	4,851	5,057	5,666	6,348
WEFA	4,768	4,971	5,645	6,401
GRI	4,772	4,960	5,541	6,250

● MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

JUNE	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.150	$1.093	$1.114	$1.278
Regions:				
Northeast	1.160	1.080	1.103	1.296
North Central	1.149	1.111	1.115	1.290
South	1.136	1.083	1.096	1.245
West	1.161	1.096	1.148	1.309

Source: U.S. Dept. of Labor, Bureau of Labor Statistics

STOCKS (Add 000 bbl.)

	7/28/89	7/29/88
Gasoline (all types)	225,960	209,691
Gasoline (unleaded)*	160,576	130,741
Jet Kerosine	41,263	39,701
Distillates	111,500	118,381
Residual	42,186	40,245

** Included in gasoline total*

Source: American Petroleum Institute

Connecticut Proves It Has Good Petroleum Marketing Statistics

Connecticut not only has a good basic system for registering gasoline and fuel oil marketers, it can quickly provide numbers, price ranges, consumption data, etc.—all the vital statistics that may be needed for fingertip reference.

Gals. Sold	No. of Vendors	% of Vendors	% of Retail Sls.
More than 10,000,000	12	2%	22%
5,000,000 to 10,000,000	26	4%	21%
1,000,000 to 4,999,999	153	25%	37%
500,000 to 999,999	141	24%	13%
Less than 499,999	269	45%	7%

This may seem and sound like a non sequitur of major unimportance to petroleum marketers, but Connecticut energy officials were justifiably disconcerted recently when the Nutmeg State was lumped in with other New England states lacking population data on gasoline outlets [*NPN*—June '89, p13].

Connecticut has two annual reports, one on vendor registrations for all petroleum products and the other on energy consumption, prices, etc. Either may be obtained from the state energy division in Hartford. They confirm that the population total cited in the NPN survey in May (2,000) was almost right on the nose—2,060 registered outlets. They were concerned, however, about the misbranding of their record-keeping operations.

An interesting number that literally jumped out of the registration report was that 143 retail outlets said they sold less than 5,000-gal. of gasoline in the year ended June 30, 1988. How could such low-volume operations survive in a new world where 1-million gal./yr. sales are routine and, as a matter of fact, are becoming essential to survival? The answer: fringe dealerships or perhaps vendors just starting up or undergoing tank replacements or other forms of remodeling and repair requiring interim shutdowns.

Six companies dominated gasoline marketing in Connecticut in the year ending June 1988, as follows: Mobil, 326 outlets; Texaco, 281; Cumberland Farms/Gulf, 247; Sunoco, 226; Citgo, 190; and Shell, 129. Amoco dropped from 200 in 1986 to 58 in '88 while Exxon eroded from 119 to 91 in the same time span.

An interesting aspect of the distillate heating oil segment was that 12 vendors each had sales of 10-million gal., representing 22% of the market. This was an increase of five vendors to the 10-million class in three years. On the other end of the spectrum, 269 vendors had volumes of less than 500,000-gal./yr., representing about 7% of the market and about half the companies in business.

The chart above shows a bird's eye breakout.

Getty Buys RECO, Gets 87 Stores And Outlets

Getty Petroleum Corp., Jericho, N.Y., has added 87 convenience stores and gasoline outlets to its chain of 3,000 on the Atlantic Coast. It also is entering Virginia for the first time, raising its state total to 13.

Getty, already one of the nation's biggest independent marketers of gasoline and other petroleum products, bought RECO Petroleum, Inc., Reading, Pa., for an undisclosed sum of cash.

The C-stores operate under the name of "Mr. Food" and "Country Acres." The company also is a supplier of heating oil in the Reading area and these operations will probably be rolled into Aero Petroleum, which Getty acquired in 1986.

When the contract is signed, Getty will have about 400 C-stores and 2,700 service stations and supply contracts in its marketing-distribution chain.

Merit Oil Sues To Foil Highway Bypass, Cutoff

Merit Oil, an East Coast independent 51% owned by Amerada Hess Corp., says New York-New Jersey Port Authority construction plans will deny access to one of its stations that has been on the same corner in Jersey City for 50 years.

Merit, in a suit filed in Superior Court, accused the Port Authority and Newport Associates Development Co. of rigging up a "deal" which would result in the building of a barrier which, in turn, would shut off the flow of traffic from the Holland Tunnel Plaza exit to its station.

Merit says that because of the proximity of the plaza to its station, it is among the most valuable in its chain. It alleged that Newport Associates abandoned plans to buy the station because of its high cost and that "a deal" was struck by the Port Authority and the developer to proceed with construction without giving objectors an opportunity to intervene.

Agents Grab Truck Stops In Seize/Search Raids

Invoking a 1984 law for the first time, New York state tax agents seized two truck stops, banks accounts and personal items of suspected tax violators before the actual filing of criminal charges.

A spokesman explained that the seizures were authorized by a judge to avoid the possibility that the assets might be disposed of prior to the arrests made in July.

He said formal charges would be filed and that they probably will include tax evasion counts which could lead to felony convictions, jail terms and heavy fines.

Tax agents identified the truck stops as the Big Apple Truck Stop and the Big M Truck Stop, both located in Glenmont, N.Y. Companies involved were Big Apple Truck Stop, Inc., Express Lube, Ajax Energy Trucking, Petroleum Transport and Wholesale Co., Petro-King Fuel Corp., Glenmont Petroleum and Wholesale Co., and Alexander Latsinik Management Co.

Also confiscated were some company and personal bank accounts, several private cars including a Jaguar and a Lincoln Towncar and a tank truck. Counsel for the defendants placed the value of the sized assets at "more than $4-million."

Among the individuals identified by the tax agents were Gregory Uchitel, Bassia Uchitel, Alexander Latsinik, Thomas Foley, Philip Silvergate and Alexander Shadrin.

Karl Felsen, the tax department spokesman, said this was the first time that the 1984 law, which authorizes the seizure of assets in advance of the filing of formal charges, was used.

Expansion-MindedCoastal Looks At Aruba Refinery

Coastal Corp. is trying to save Exxon's old refinery in Aruba from the junkman and, at the same time, position itself for market expansion possibilities in the Southeast and elsewhere.

The refinery, once rated at 400,000-b/d, was shut down in 1985 and a contractor is now in the process of dismantling it. Coastal says it's dickering with the contractor for the equipment and the government for the real estate and start-up licenses.

It hopes to bring negotiations to a head soon so that a course of action can be laid out. It wants to re-open the refinery at a 150,000-b/d rate and then escalate this with the addition of a cat reformer and cracker.

Some sources said Coastal's projected

NACS Public Opinion Survey Reveals Some Positive Attitudes

The findings of a nationwide public opinion survey conducted on behalf of the National Assn. of Convenience Stores (NACS) has revealed some interesting comments on the public's image of convenience stores. Opinion Dynamics Corp., of Cambridge, Mass., polled 1,001 adults—with a 3% margin of error—in November 1988.

The survey was designed to assess the public's attitudes toward the C-store industry in an effort to improve the industry's image overall.

Basically, the results indicate that the C-store industry is perceived in a favorable light. Approximately 64% of the respondents have a somewhat favorable or strongly favorable opinion of the C-store industry, while only one-third expressed negative opinions. The few remaining respondents did not have an opinion on this specific industry, which incidentally scored much higher than insurance companies. Interestingly, though, after the respondents were aware of some of the issues confronting C-store operators many of the earlier opinions changed favoring the industry even more. About 85% of the respondents gave the industry as a whole favorable marks, while only 15% expressed either unfavorable comments or had no opinion at all.

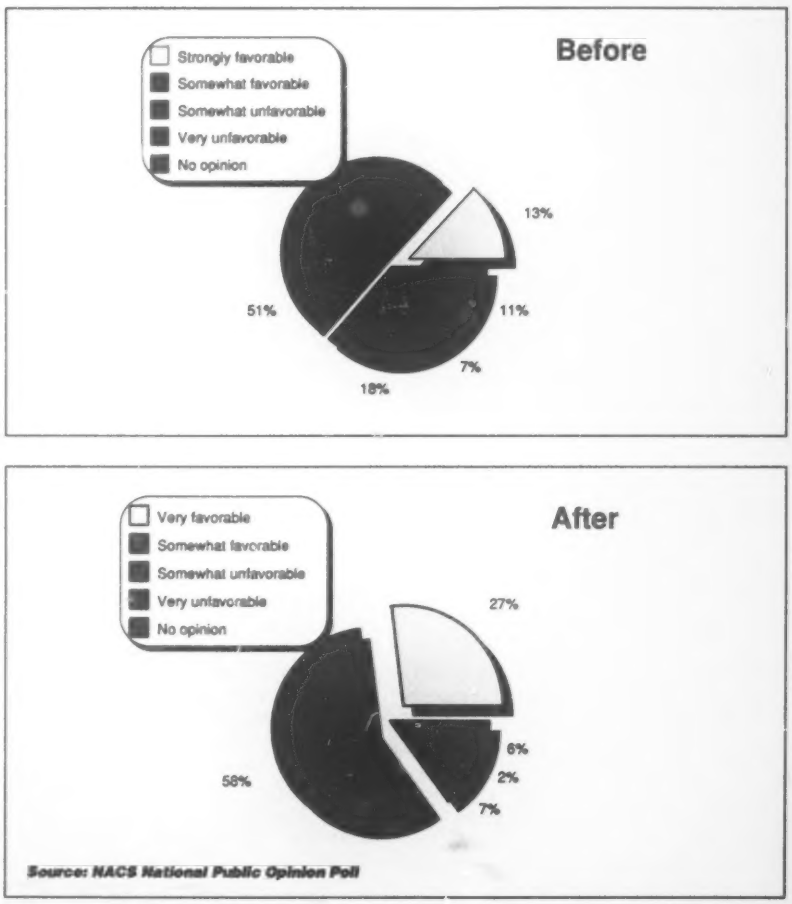
While the survey indicated that high prices are the C-store industry's primary negative, most of the respondents consider employees, proximity to home and hours of service as the industry's greatest strengths.

Even though 74% of C-store consumers complain about high prices, 61% of Americans shop at C-stores at least once a week, 27% shop less than once a week and only 12% have never shopped at a C-store.

On a positive note, 74% of the respondents said that C-store clerks tend to be courteous and well-trained, while only a meager 16% disagreed with the aforementioned statement. Seventy-one percent of the C-store consumers acknowledged that a wide variety of products to choose from is important while only 13% said that being able to purchase gasoline and food at the same location is very important to them.

Despite traditionally having a perception of a high-crime facility, 79% of those responding to the seven-day survey feel safe in the general area around the C-store.

Other key issues that are very important to C-store shoppers are getting in and out of a C-store as quick as possible, 67%; avoiding long lines, 78%; dealing with efficient employees, 82%; and 94% consider a large, well-lit store either important or somewhat important.



The above charts show how the public's opinion of the C-store industry changed after respondents were confronted with issues plaguing this market. The top chart indicates responses prior to interview screening. The bottom chart was based on responses after screening.

Jury Upholds Mapco Petroleum's Gasoline Pricing Practices

An Alabama jury has ruled that Mapco Petroleum's gasoline pricing practice of selling gasoline 1-3¢ below the majors does not violate the Alabama Motor Fuels Marketing Act (AMFMA).

Amoco-branded jobber McDonald Oil, LaGrange, Ga., filed suit against Mapco last fall challenging these pricing policies. After a two-day trial, the Northern District of Alabama Federal Court jury determined that Mapco's pricing policy—even if it meant selling below cost—did not violate the state law.

"This jury verdict is a substantial victory, not only for Mapco Petroleum, but for independent, unbranded marketers of petroleum products throughout the United States, in that it preserves the industry-old practice of allowing us to meet major brand competition by pricing the traditional 1-3¢ under the majors," says James Alligood, Mapco's vice president of retail marketing. "This type of decision assures that the consumer will continue to have multiple options for purchasing gasoline in the future. Needless to say, we are very pleased with the verdict," he says.

Even though Mapco had filed a counter suit against McDonald Oil, it didn't win any damages and the branded jobber does not have plans to pursue an appeal.

Why Oil Marketers Have C-Store Chains Circling Their Wagons

Like the early frontier pioneers, traditional convenience store companies—Southland, Circle K, et al—carved out a brand new industry in the post-World War II retail market and for years dominated and controlled that fast-growing industry.

But now, traditional C-store firms are circling their wagons, not only to adapt to changing market conditions but to meet a powerful competitive onslaught of petroleum marketers—jobbers, majors and independent oil companies alike—which are aggressively expanding into the convenience store market.

More and more, the traditional chains find themselves in tough head-to-head competition with jobbers and oil companies which are not only increasing the number of outlets they operate but also the size and offerings of these units.

"They (petroleum companies) are very definitely a competitive force in C-store marketing today," notes a Southland spokesperson.

The traditional operators are hunkering down to hold market share, but their work is cut out for them. Although they're still holding strong hands, jobbers and oil companies have some powerful trump cards—the most notable being an overwhelming selection of prime locations, many of which are rapidly being converted from gasoline stations to C-store/pumper combinations. As expected [*NPN*—Sept. '88, p40], in a flat out building race, C-store chains are at a distinct disadvantage. And the race is on—has been for some time.

"There is no question that the best locations are owned by the majors and independents. They also are willing to spend big bucks on those locations," says William Englefield, president and CEO of Newark, Ohio-based Englefield Oil Co. This observation is typical of many in the industry.

Moreover, some of the biggest guns among C-store companies are grunting under the strain of financial woes which are for the most part unrelated to the influx of jobbers and oil companies. Southland, for instance, is selling stores faster than Slurpies as part of a restructuring to become private. Another giant, Circle K, which is hip-deep in expensive store acquisitions, recently put itself on the block.

Complicating matters is that all this is happening in an ominous market environment. In many areas of the country, for instance, the C-store market is saturated and the intense competition has cut overall per store sales and pounded down prices and profit margins.

"Sales have become stale. The market is becoming saturated and it's getting tough to make a profit," says Dan Katz, director of C-store marketing for Noble Tennant Advertising and Marketing Service, a division of Noble Communications Co., which does research and marketing in the C-store market. Prior to joining Noble, Katz worked 14 years as executive vice president of franchise operations for the Stop-N-Go C-store chain.

"As the market matures it won't be easy to make the dollars. Just because you grow doesn't mean you grow profitably," says Kyle Krause, vice president of finance for West Des Moines, Iowa-based Krause Gentle Corp., which currently has 137 Kum & Go C-stores.

"It's getting tougher and tougher to make a profit in the C-store business," says one Southern jobber.

At the same time, other factors are making themselves felt. There are those who believe, for instance, that the customer base for convenience stores has shrunk—if you view a convenience store as an outlet which sells fewer goods for higher prices than are charged elsewhere, as opposed to a "mass marketer" which concentrates on high volume and lower prices.

John Roscoe, operator of a discount store chain in California and publisher of the *Dollars Per Day Survey*, is among those who see it this way. And, he believes, the trend is toward the mass marketer.

In his 18th annual survey, he says about

By Frank Victoria
Editor-in-Chief
and Peggy Smedley
Managing Editor

90% of the food and gasoline customer market is price conscious and belongs to mass marketers, leaving only 10% of the total market to convenience operations.

Oil marketer penetration

Industry data—including information gleaned from NPN telephone interviews along with data from NPN's annual Factbook questionnaires from oil companies and jobbers—reveal a remarkable, across-the-board thrust of petroleum oriented companies into the convenience store market.

The staff interviews covered a wide cross section of majors, jobbers—both large and small—traditional C-store chains and industry observers. The interview survey and Factbook questions were designed specifically to elicit information for this article and to generate data on industry trends rather than for extrapolating industry averages or total numbers on convenience stores.

Of the more than 500 marketers responding to the questionnaire and phone poll, about 40% reported that they operate C-stores—and roughly 140 of these said they have plans to increase the number of stores they operate by the end of this year and in 1990. (It is possible that more than 40% of the respondents have C-stores but did not fill out that portion of the questionnaire.)

The attitude of many of these jobbers is probably summed up nicely by Homer McGinnis, president of Pride of Texas Dist. Co.: "To survive in a metropolitan market you must grow, you cannot stand still."

Information from the jobbers and oil companies which provided specific numbers on their C-store expansion plans for this year and 1990 includes the following:

- A total of 61 marketers with less than 20 C-stores report plans to cumulatively add 96 stores through the end of 1989 and another 102 units in 1990.
- Jobbers who currently have between 21 and 50 stores—32 companies in our sampling—say they will cumulatively add a total of 107 C-stores this year and 100 more stores in 1990.
- Ten companies in the 51-100 store range plan to add 63 units in 1989 and another 61 in 1990.
- Six large marketers with between 101 and 200 units indicated they plan to add 55 stores among them this year and 72 in 1990.
- Two still larger marketer companies in

the 201 to 300-store range will add 80 stores between them in 1989 and 85 more in 1990.

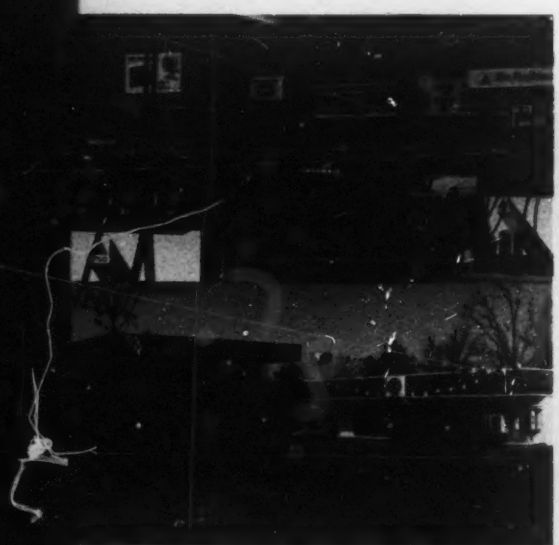
This data does not include information from about 30 jobbers who could not reveal specific plans.

Details on the expansion plans of the major oil companies is sketchier, given the customary reluctance of several large firms to reveal specific growth numbers. However, data from 12 of the 21 major and second-tier companies polled by NPN shows those firms plan to add 603 units to their C-store stables in 1989 and another 643 stores in 1990. It should be noted that these figures do not include those from several very large oil firms which are known, empirically as it were, to be actively expanding in the C-store vineyards.

From another vantage point, the growth of the majors' involvement in C-stores is shown by NPN's figures on current C-store populations, a tabulation which is complete for all 21 major oil companies. The total number of major company stores now amounts to 17,825. This represents a jump of 960 stores from last year's total, 16,859 units, or an increase of 5.7% in total large company stores.

For the past several years the majors have been on a significant building program, but the traditional chains aren't sure whether they can keep up that pace. Southland speculates that the majors rate of entry into the C-store market won't be as dramatic in the future as it has been during the past few years.

Other sources paint a similar picture of growing oil marketer penetration of the C-store market. *Convenience Store News*' 1989 Industry Report, for instance, shows the number of C-stores increased from about 80,000 in 1987 to roughly 82,500 in 1988, and of this 2,500 increase, 2,000 were added by petroleum marketers. Last year, it noted that of 4,000 new units, 3,000 were established by petroleum companies. Even more revealing is that since 1984, the number of C-stores operated by petroleum marketers increased from 16,000 to 30,000, a nearly 90% increase, while those operated by traditional C-store chains increased at the much



Traditional giants like Southland and Circle K blazed the trail for others to follow in the C-store business, but now face heavy-hitting competition from petroleum companies. In addition, some are burdened with financial problems partly of their own making. Southland, for example, is selling off many of its outlets as part of an expensive privatization program, while Circle K, which has been on an acquisition binge, has put its entire operation up for sale.

NPN'S CONVENIENCE

COMPANY	HQ LOCATION	C-STORE NAME
Acme Petroleum Fuel Co., Inc.	Gastonia, NC	Handy Pantry Food Stores
American Petrofina, Inc.	Dallas, TX	Finamart
Amoco	Chicago, IL	Food Mart
Arkansas Valley Petroleum	Tulsa, OK	Git N Go
Arco Products Company	Los Angeles, CA	am/pm mini market
Ashland Oil, Inc.	Ashland, KY	Superamerica
Atlantic Refining & Marketing Corp.	Southeastern, PA	A-Plus Mini Market
Aztex Enterprises	Knoxville, TN	Aztex Fuel and Food Centers
Beacon Oil Co.	Hanford, CA	Beacon (Store Ultramart)
Berwick Bay	Morgan City, LA	Friend's/Delta Marts
Best Oil Co.	Pittsburgh, PA	Toot-N-Scoot
BP America, Inc.	Cleveland, OH	Sohio/BP/Gulf-Mart
Browning Oil, Co.	Bowling Green, KY	Shell Food Marts
Campbell Oil Co.	Massilon, OH	Speede Food
Cannon Oil Corp.	Dothan, AL	Cannon Oil Corp.
Casey's	Des Moines, IA	Casey's
Cenex	St. Paul, MN	Cenex C-stores/ Townmart
Center Independant Oil Co.	Smock, PA	Sweet Peas
Certified Oil Co.	Columbus, OH	Certified Mini Marts
Champlain Oil Co.	South Burlington, VT	Colonial Deli Mart
Chevron Corp.	San Francisco, CA	Food Marts
Circle K Corp.	Phoenix, AZ	Circle K Convenience Stores
Citgo Petroleum Corp.	Tulsa, OK	Citgo Quik Mart
The Coastal Corp.	Houston, TX	Coastal Mart/C Mart
Conoco, Inc.	Houston, TX	Conoco/Jet
Convenient Food Mart	Rosemont, IL	Convenient Food Mart
Convenient Petroleum Corp.	East Hartford, CT	Petro Pantry
Crown Central Petroleum Corp.	Baltimore, MD	Fast Fare/Zippy Mart
Crystal Flash Petroleum Corp.	Indianapolis, IN	CF Combo's
Cumberland Farms	Canton, MA	Cumberland Farms
DeBlois Oil Co.	Providence, RI	DB Mart
Diamond Shamrock R&M Co.	San Antonio, TX	Diamond Shamrock Corner Store
Drakes Refinery Stations Inc.	Lansing, MI	Drakes Refinery Stations, Inc.
Emro Marketing Co.	Springfield, OH	Speedway
Englefield Oil Co.	Newark, OH	Duchess Shoppe
Exxon Company, U.S.A.	Houston, TX	Exxon Shop
Farm & Home Oil Co.	Telford, PA	Farm & Home Corner Store
Fleetman Inc. dba Fualman	Metairie, LA	Foodman
FKG Oil Co.	Belleville, IL	Motomart
Flying J Inc.	Brigham City, UT	Flying J
Foster Oil Co.	Richmond, MI	Sunrise Convenience Stores
Four Star Service Stations Inc.	Grand Rapids, MI	Four Star Service Stations & Stores
H.N. Funkhouser & Co.	Winchester, VA	Handy Mart
Gasco Gasoline, Inc.	Oxnard, CA	Desert Petroleum
General Oil Co.	Batesville, AR	General Quik Mart
Getty Petroleum	Plainview, NY	Getty Marts
Giant Industries, Inc.	Phoenix, AZ	Giant Food Stores
Gresham Petroleum Co.	Indianola, MS	Double Quick
Angus T. Hines, Inc.	Suffolk, VA	Sentry Food Marts

N/A—Precise figures not disclosed by company
N/C—No change
?—Plan to add C-stores, but exact number unknown

STORE SUMMARY

1987 TOTAL	1988 TOTAL	1989 CURRENT	1989 PROJECTED	ADDITIONS PROJECTED IN 1990	AVG. GASOLINE VOLUME PER STORE PER MONTH		SIZE SQ. FT.	
					MINI	FULL	MINI	FULL
N/A	N/A	50	55	5		N/A		N/A
115	150	157	182	40	23,931	81,534	800	1,500
800	1,000	1,000	N/A	N/A	N/A	N/A	800	1,600
11	12	13	15	2	N/A	50,000		2,400/3,000
N/C	782	782	770	50	N/A	200,000	1,600	2,500
457	500	525	600	?		120,000		3,400/4,400
254	270	270	280	10	127,500	116,000		1,600/2,000
N/A	N/A	36	39	3	125,000	110,000	800/900	1,800
104	120	109	114	10	122,600	122,600	600	1,600
43	39	40	43	3	30,000	190,000	400	2,800
12	13	13	14	?		100,000		N/A
N/A	620	651	701	60	148,500	122,800	1,000	1,500
6	7	7	8	2	75,000	85,000	900	2,000/2,800
20	21	22	25	5		100,000		2,300/3,300
18	18	17	18	2		73,529		1,500/2,000
N/A	N/A	732	?	40		N/A		2,500
115	155	225	255	35	40,000	55,000	800/1,500	1,600/2,400
N/A	N/A	4	6	2		75,000		N/A
3	7	16	20	10	N/A	N/A	900	2,000
45	47	50	53	2	35,000	45,000		2,400
3,750	3,896	3,936	3,996	100	N/A	N/A	350	1,200
3,507	4,097	4,677	4,700	?	100,000	38,000		2,600
14	15	15	17	?	100,000	150,000	900	1,800
N/A	900	850	?	?	51,377	49,338		2,000
469	486	477	527	50	109,990	109,990	400	1,200/1,600
1,345	1,450	N/A	N/A	?	N/A	N/A		3,000
5	7	11	14	2	110,000	85,000	500	1,600
519	532	N/C	542	12	140,000	40,000	500	2,400
N/A	N/A	24	24	2	80,000	90,000		N/A
N/A	1,200	1,075	N/A	?		50,000		2,000/3,000
4	7	11	15	4		60,000		2,200
510	529	617	657	40	93,000	93,000		1,200
12	12	14	17	4	40,000	40,000	800	
621	675	889	959	70		N/A		3,375
33	42	53	60	10		84,000		1,500/2,000
N/A	375	450	?	?	N/A	N/A		1,100
3	8	8	10	2	50,000	60,000		1,200
N/A	N/A	11	16	5		80,000		N/A
28	33	38	42	4		110,000	400	2,200/2,700
28	31	33	40	?		100,000		2,400
N/C	N/C	13	17	4	86,000	130,000		
11	11	10	11	?	70,000/350,000		1,000	
5	7	8	9	1		100,000		2,200/2,400
11	10	8	10	2	103,000	147,000		
35	35	33	N/C	?		50,000		1,400/3,000
300	300	378	435	50-70	N/A	N/A	600/1,000	2,000
14	15	21	31	10		200,000/250,000		2,000
23	24	26	26	2		25,000		2,400
24	28	30	33	?		N/A		1,700

➜

slower rate of 47,000 to 52,500, about 12%.

There's nothing new about petroleum company involvement in the convenience store market. They moved into the market back in the '70s, with jobbers leading the way. But nowadays there seems to be an added spur driving marketers to build or buy new stores or to convert existing stations.

Jobbers mention the need for better—and more stable—returns on investment in property and facilities, higher margins compared to gasoline profits, relatively low manpower costs, among other reasons.

Also, in today's market, jobbers are being ambushed at every turn by escalating costs; in particular the high price of compliance with the Environmental Protection Agency's underground storage tank regs and financial requirements. Jobbers recognize the need for generating additional cash streams to cover that heavy cost overlay.

Troy, Mich., marketer R.H. Tod Butler of Mid-States Petroleum is among these. "Our primary reason for expanding and upgrading our C-stores now is to generate additional income to cover the added costs of operation such as UST upgrades, Stage II vapor recovery systems." Store upgrades can be tied into tank replacements and upgrades for economy purposes, he points out.

At the same time, many jobbers are under pressure to conform to widespread and expensive image improvement programs to

which the majors and many large independent oil companies are committed. Although incentive rebates are provided, the money doesn't usually come near to what jobbers spend on these upgrades.

Consequently, jobbers are reexamining their operations, unloading marginal outlets and earmarking those with the greatest potential for a major infusion of funds to meet environmental requirements and to upgrade and modernize. Each of these improved locations will need to produce volume and profit to cover these investments as well as business lost from closed or sold units. In short, jobbers have to get as much bang for invested buck as they can—more than they ever have before—and C-stores are one means to that end.

Noble Communications' Katz says, "C-stores can be anything and everything." He explains that a C-store on a piece of property—such as a gasoline station—generates more customer traffic.

Krause concurs. He says adding more services, like a C-store, not only draws traffic, but it helps boost overall profits. "The dollars are tougher to come by these days in profits," he notes.

Another Ohio marketer explains that his C-stores are a good stabilizing factor in his marketing area. He says, "Margins are consistent in C-stores, unlike gasoline margins."

Mini to maxi

Historically, petroleum company convenience outlets, particularly those operated by the majors, have tended to be the smaller (under 1,000-sq.ft.) island marketer or kiosk types—the so-called "mini" stores. The full-size (over 1,000-sq.ft.) format long ago was staked out by the traditional C-store industry.

Now, separately compiled tabulations from NPN Factbook questionnaires demonstrate that many marketers are scaling up the size of the C-stores they're building or acquiring. This data strongly suggests that marketers are dramatically shifting away from the under 1,000-sq.ft. mini outlets to the larger 1,000-plus sq.ft. stores—and usually much larger than that.

Specifically, of the 105 non-major responding petroleum firms which plan to expand their C-store operations, 83 say they are adding only full-size stores in the future. Only 22 of the reporting firms will add mini stores in 1989 and 1990.

The 83 marketers planning full-size store expansions indicate they will add 349 such units in 1989 and 289 more in 1990, for a total of 638 additional stores. That's an increase of almost 26% in the number of full-size stores operated by those firms. In contrast, the 22 firms that say they will add mini stores are looking at 49 store additions in 1989 and another 53 in 1990.

Among these reporting companies, then, the planned C-store expansion is weighted more than six to one in favor of the larger size C-store format.

As for the majors and semi-majors, the 11 companies which responded indicate they will be adding 229 full-size stores this year and 245 next year. As for mini units, the companies say they will add 200 in 1989 and 210 in 1990.

Why bigger...or smaller?

As marketers move up from the mini-store size to the full-size C-store category, some are plunging ahead to the next step in the evolutionary process: large stores to larger stores, with even a greater variety of product offerings.

NPN'S CONVENIENCE

COMPANY	HQ LOCATION	C-STORE NAME
Barney Holland Oil Co.	Ft. Worth, TX	Jack B. Quick, Inc.
Huck's Convenience Stores	Carmi, IL	Huck's Food Store
Hudson Oil Company	Tulsa, OK	Hudson
Hughes Energy, Inc.	Daytona Beach, FL	Sugarcreek
Hull Oil Co.	Panama City, FL	Jr. Food Mart (franchise)
Hunt Refining Co.	Tuscaloosa, AL	(leases stores)
Huntley Jiffy, Inc.	Orange Park, FL	Huntley-Jiffy Stores Inc.
J&L Oil, Inc.	Vernon Hills, IL	J&L Food Mart
Kelley Williamson Co.	Rockford, IL	(various)
Kent Distributors, Inc.	Midland, TX	Kent Kwik
Kimber Petroleum Corp.	Madison, NJ	Kwik Pik
Krause Gentle Corp.	West Des Moines, IA	Kum & Go
Kunz Oil Co.	Edina, MN	Peoples Pi
Kwik Shop, Inc.	Hutchinson, KS	Kwik Shop, Inc.
H.C. Lewis Oil Co.	Welch, WV	Kwik Serv Food Marts
The LYDEN Co.	Youngstown, OH	Fast Chek Food Marts Inc.
Mapco Petroleum, Inc.	Tulsa, OK	Delta Express
Martin Oil Marketing, Ltd.	Alsip, IL	Martin Mini Marts
McDowell Oil Service, Inc. Time Markets, Inc.	Milton, PA	Time Marketers, Inc.
McLeiser Oil, Inc.	Kalamazoo, MI	Food Port Marketing
Mid-Missouri Oil Co. dba Jiffy Stop	Kaiser, MO	Jiffy Stop
Mid-States Petroleum	Troy, MI	Mid Mart
Miller Enterprises, Inc. dba Handy Way Food Stores	Cresent City, FL	Handy Way Food Stores
Miller Oil, Co.	Norfolk, VA	Miller Mart
Mini Mart, Inc.	Casper, WY	Mini Mart, Inc.
Mobil Oil Corp.	New York, NY	Mobil Mart
Munro Petroleum & Terminal Corp.	Biloxi, MS	MP Food Stores
Musket Corp.	Oklahoma City, OK	Love's Country Stores
National C-Store	Houston, TX	Stop-N-Go
National Oil & Gas Inc.	Bluffton, IN	(various)
Neal, Inc.	San Antonio, TX	One Stop Food Stores
Nella Oil Co.	Auburn, CA	1 Stop Convenience Food Stores
Newell Oil Co., Inc.	Alpine, TX	Gro-cer-eze
Pal Oil Company, Inc.	Palmyra, NY	Palmart
Patterson Oil Co., Inc.	Torrington, CT	PATCO Handy Stop
PDQ Food Stores, Inc.	Madison, WI	PDQ Food Stores, Inc.
Pennzoil Products Co.	Houston, TX	Penn-mart
Petroleum Sales & Service	Buffalo, NY	Petro Mini Marts
Petrotex Marketing, Inc.	Midland, TX	Friends Convenience Stores
Phillips 66 Co.	Bartlesville, OK	Phillips 66
Plaas Motor Fuels Inc.	Alton, IL	Plaas Pantry
Pilot Oil Corp.	Knoxville, TN	Pilot Foodmarts
Pride Oil Co. Inc.	Columbus, MS	Pride Pantry
Pride Oil Co. Inc.	Knoxville, TN	Smoky Mountain Markets
Pride of Texas Dist. Co.	Arlington, TX	One-Stop/Sack N' Sack/Pride Foods
Private Brand Services, Inc.	Cadillac, MI	P.B.S. Party Store
Quality Oil Co. I, Ltd. Partnership	Winston-Salem, NC	Quality Mart
Quikrip Corp.	Tulsa, OK	QuikTrip
Racetrac Petroleum, Inc.	Atlanta, GA	Racetrac Petroleum Inc./Mini-Store

N/A—Precise figures not disclosed by company
N/C—No change
?—Plan to add C-stores, but exact number unknown

STORE SUMMARY

1987 TOTAL	1988 TOTAL	1989 CURRENT	1989 PROJECTED	ADDITIONS PROJECTED IN 1990	AVG. GASOLINE VOLUME PER STORE PER MONTH		SIZE SQ. FT.	
					MINI	FULL	MINI	FULL
—0—	3	4	4	?	15,000	60,000		1,500/2,500
N/A	90	95	105	10		40,000		
10	11	11	16	5	55,000	—0—	400/1,000	
6	12	14	17	3		40,000		
3	4	5	7	3	60,000	35,000	1,000	2,400
2	2	2	4	?		150,000		
319	323	320	330	?		50,000		
22	26	31	36	4	70,000	90,000		2,000
17	19	22	22	?		150,000		2,500
N/A	N/A	16	20	3		60,000		
N/A	N/A	3	6	3		140,000		
N/A	N/A	137	147	15	25,000	37,000		
15	N/C	N/C	N/C	1	60,000	100,000	1,000	2,700/4,500
N/A	N/A	210	213	5		45,000		
N/A	N/A	4	5	3		50,000		
43	45	54	N/C	10		N/A		1,400
296	265	310	305	?		80,000		1,800
41	41	43	45	5	140,000*	140,000*		2,000
28	28	28	29	1		75,000		2,500
3	2	2	4	2		45,000		2,000/3,500
6	7	6	N/C	?	50,000	70,000		1,200
11	18	32	36	11	130,000	130,000	800	2,500
144	141	137	146	10	N/A	N/A		2,400
N/A	N/A	21	N/A	N/A		60,000		N/A
115	117	117	120	10		40,000		2,400
800	800	800	N/C	?	N/A	N/A	600	N/A
N/A	N/A	41	45	?	40,000	60,000	1,000	1,200/1,400
N/A	100	119	129	?		N/A		1,800/4,000
1,169	1,200	1,141	N/C	N/C		N/A		2,400/3,000
18	24	29	34	5	25,000	75,000		N/A
30	30	28	30	2	25,000	125,000	500	3,500
19	21	25	37	5	167,000	167,000		2,400
N/A	N/A	1	1	0		50,000		N/A
2	6	8	11	3	60,000	60,000	1,000	2,200
N/A	N/A	6	8	3	68,000	90,000		N/A
N/A	N/A	105	113	12		N/A		N/A
N/A	N/A	4	5	3		95,000		N/A
N/A	N/A	4	5	2	100,000		N/A	
N/A	N/A	18	19	1	70,000	70,000	N/A	N/A
113	136	159	198	43	189,000	140,000	800	
N/A	N/A	6	9	2	45,000	65,000	N/A	N/A
N/A	115	72	80	8		95,000		2,200/2,800
N/A	N/A	7	8	1		38,000		N/A
N/A	N/A	10	10	0		N/A		N/A
12	21	27	30	3	40,000	45,000	900	2,800
1	N/C	1	1	0		120,000		N/A
23	24	25	27	?			200	2,200
230	252	256	295	40		N/A		3,200
N/A	N/A	268	318	50		N/A		N/A

→

Ashland Oil execs, for example, say their SuperAmerica stores are generally larger than the industry pattern and the newer ground-up stores range from a whopping 3,900 to 4,600-sq.ft. Thus, they're geared up to handle greater varieties of merchandise than the 2,000 to 2,500-sq.ft. stores which are the industry norm. All have broad mixes of foods and services tailored as much as possible to the individual needs of neighborhoods.

"That's our basic idea," says Ashland marketing vice president Jeff Howard, "make the stores and their shelves match the neighborhood needs."

Even large independent Mapco Petroleum is expanding into larger C-stores (3,600-sq.ft.) because, management says, the company is adding even more fast food items to its operations and it needs more space to make this happen.

Denny Miller, vice president, gasoline operations for Crescent City, Fla.-based Miller Enterprises, reports that a new company store under construction will be 25% (2,950-sq.ft.) larger than the company's traditional 2,400-sq.ft. This expansion was designed to accommodate additional fast food items, Miller points out.

While many companies are expanding in size, other marketers are sticking with the smaller or mini units that have been characteristic of many petroleum operations. The

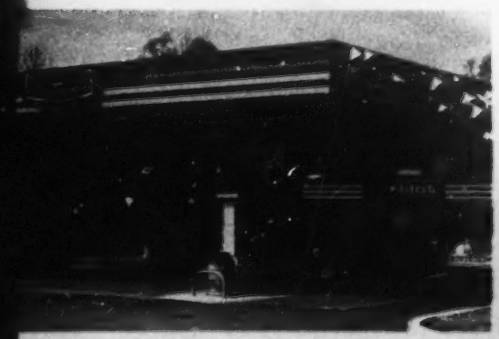
island marketer format, after all, has proven quite successful in conjunction with high-volume gasoline outlets.

Although most of its stores (500-plus) are currently full-size units, Crown Central is now emphasizing expansion of its 650-sq.ft. multi-pump Express Mart island marketers. Crown Central plans to add 10 of these units this year and another 10 next year, says Joe Candella, senior vice president of marketing for Baltimore-based Crown Central Petroleum Corp. The Express Marts are designed for high-volume locations averaging over 140,000-gal./mo. In contrast the company's more traditional 2,400-sq.ft. units average 40,000-gal./mo. Candella notes that the smaller units can handle 60% of the product lines carried by the larger units.

Mobil Oil views the C-store market similarly. Company officials say having C-stores which are typically diminutive, i.e. 600-sq.ft., has proven "adequate for our purposes," adding that the function the company has for its Mobil Marts is "to satisfy impulse purchases for individually-sized snack items, not large packages."

Expansion of BP America's C-store network will be in the direction of 1,000-sq.ft. mini-stores, according to Hugh Hanna, senior vice president of retail marketing for the Cleveland-based firm. Hanna says that 90% of the newer or converted stores will be in that size range, most of them direct company operations.

"The smaller units give us better control of operating costs," says Hanna, "with lower stocking needs, faster inventory turns and reduced manpower costs." Food service is not being considered, either, he says, since

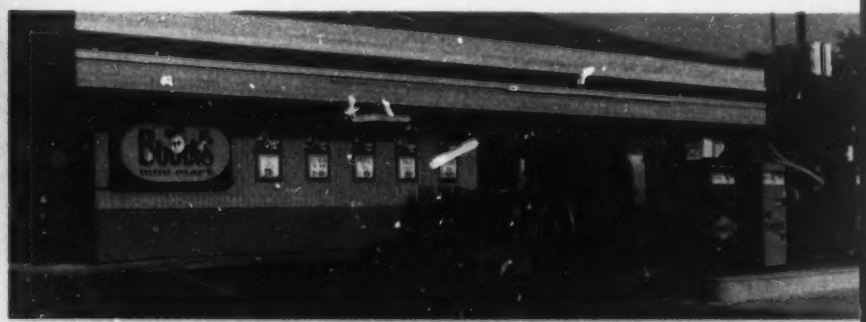


Jobber firms like Pipeline Oil Co., Jackson, Mich., and Pilot Oil Corp., Knoxville, Tenn., have been the leaders among petroleum companies in C-store innovations. Pipeline, for example, with it's Buddy's Mini-Marts, is typical of those marketers which are moving to fill in the marketing gap in small rural areas created by the pullouts by larger companies.

NPN'S CONVENIENCE

COMPANY	HQ LOCATION	C-STORE NAME
Reco Petroleum, Inc.	Reading, PA	Mr. Food Stores
Red Hed Oil Co., Inc.	Richmond, KY	Redi-Mart
Reinhardt Corp.	Wes Oneota, NY	Busy Bee Food Stores
River Oil Company	Memphis, TN	(various)
Robinson Oil Co., Inc.	San Jose, CA	Mrs. Robbie's Foodstore/ Mrs. Robbie's Snackspot
Royster Oil Co., Inc.	Shelby, NC	RoCo Food Stores
Russell Petroleum Corp.	Montgomery, AL	KwikShop Food Stores
Sahara Oil Co., Inc.	Phoenix, AZ	Rebel Quik Mart
SATCO	Portland, ME	SATCO
SCASCO	Winsted, CT	(various)
Schaeffer Oil Inc.	Winner, SD	"Lil Feller"
Shay Oil Co., Inc.	Yuma, AZ	Shay's Mart
Shell Oil Company	Houston, TX	Shell Food Mart
SICO Co.	Mount Joy, PA	Sicoserve
Sing Oil Co.	Thomasville, GA	Sing Food Stores
Southern Oil Co., Inc.	Suffolk, VA	Southern Food Stores
Southland	Dallas, TX	7-Eleven
The Spencer Co's., Inc.	Huntsville, AL	Minit Man
Stevens Oil Co.	Huntsville, AL	Chevron Food Marts
Sugarcreek Corp.	Rochester, NY	Sugarcreek Stores
Sun Refining & Marketing Co.	Philadelphia, PA	Stop-N-Go
Sunshine Jr. Stores Inc.	Panama City, FL	Jr. Food Store
Taylor Oil Co.	Winston-Salem, NC	Etna Food Marts
Texaco, Inc.	Houston, TX	Food Mart
Thornhill Oil Co., Inc.	Fort Wayne, IN	Amoco Food Shops
Thornton Oil Corp.	Louisville, KY	Thornton Gas & Food Mart
Time Saver Stores Inc.	New Orleans, LA	Time Saver Stores Inc.
Tooley Oil Co.	Sacramento, CA	Shell Food Marts
Total Petroleum, Inc.	Denver, CO	Total Mart/V Mart
Transit Oil Co.	Louisville, KY	Transit
Ultra Power Corp.	Monticello, NY	Ultra Mart
United Refining Co.	Warren, PA	Kwik Fill
UNOCAL Corp.	Los Angeles, CA	Self Serve Marts
Vista Marketing Group Ltd.	Rockford, IL	Vista
Wake Up Oil Co., Inc.	Indianapolis, IN	Mini Snack Shop
Warelubco, Inc.	Jacksonville, IL	Wareco Country Stores
Warren Equities, Inc.	New York, NY	Xtra Mart
Welsh Oil, Inc.	Merriville, IN	(various names)
Western Marketing, Inc.	Abilene, TX	Wes-T-Go, Inc.
Westgate Oil Co.	Muskegon, MI	WESCO/ Good Neighbor Convenience
A.T. Williams Oil Co.	Winston-Salem, NC	Wilco Food Marts
J.H. Williams Oil Co., Inc.	Tampa, FL	76 Mini Marts, Inc.
The Wills Group, Inc.	LaPlata, MD	Dash In Food Stores Inc.
Wooten Oil Company	Goldsboro, NC	Kwik Mart
World Oil Co.	Southgate, CA	Swift Stop

N/A—Precise figures not disclosed by company
N/C—No change
?—Plan to add C-stores, but exact number unknown



STORE SUMMARY

1987 TOTAL	1988 TOTAL	1989 CURRENT	1989 PROJECTED	ADDITIONS PROJECTED IN 1990	AVG. GASOLINE VOLUME PER STORE PER MONTH		SIZE SQ. FT.	
					MINI	FULL	MINI	FULL
N/A	N/A	40	43	10	65,000	45,000	N/A	N/A
N/A	N/A	8	8	2		35,000		N/A
N/A	26	27	35	?	40,000	45,000	N/A	2,500
2	3	3	3	2		40,000		1,500
7	7	7	9	?		N/A		N/A
N/A	19	21	23	2		30,000		2,400
15	17	17	17	2	75,000	75,000	1,400	3,000
N/A	N/A	6	8	?		N/A		N/A
25	25	26	28	?	25,000	50,000	N/A	N/A
N/A	N/A	10	12	1	50,000	65,000	N/A	N/A
3	4	6	N/C	?		N/A		2,500
N/A	N/A	10	13	2		100,000		N/A
N/A	1,100	1,164	N/A	N/A	158,000	112,000	800	1,000/2,600
N/A		7	9	2	93,000	90,000	N/A	N/A
N/A	52	55	59	4	73,500	95,000	1,000	2,700
4	5	5	6	1		65,000		N/A
8,250	7,233	7,097	6,950	50	N/A	N/A	300/1,600	2,400
14	14	16	16	0	50,000	80,000	800	1,200
20	25	30	32	4	N/A	N/A	800/900	1,200
N/A	N/A	100	110	10	70,000	70,000	N/A	2,000/2,500
N/A	485	620	N/C	?	N/A	N/A	300	2,000/2,400
306	309	315	340	40		35,000		1,800/3,000
56	56	53	56	3	120,000	120,000	900	2,400
900	900	1,705	1,813	105	130,000	148,000	1,000	1,800
8	11	12	N/C	?		105,000		1,000
N/A	N/A	75	85	7		N/A		N/A
142	139	139	140	2		30,000		3,200
8	7	8	9	?	194,000		200/800	
430	470	509	534	25	135,000	135,000	800	1,500
7	7	7	7	0	60,000		800	
3	4	4	9	9		N/A		1,500
110	N/C	N/C	120	24	N/A	N/A	700	1,500
2,500	N/C	N/C	N/A	N/A	N/A	N/A	500/1,000	2,200
N/A	N/A	4	6	1	100,000	140,000	N/A	N/A
1	5	5	?	6	100,000	75,000	280	2,500
N/A		72	?	5	100,000	100,000	900	2,400/2,600
N/A	87	101	112	13	96,000	74,000	1,000	1,500
N/A	27	27	28	?		N/A		2,400
N/A	N/A	11	11	2		65,000		N/A
N/A	28	28	N/C	?	125,000	125,000	1,000	2,000
78	83	88	95	7		100,000	800	2,400
6	6	6	8	2	100,000	150,000	N/A	1,400
9	32	32	38	15		65,000		2,400
N/A	N/A	23	25	1-2	52,000	70,000	N/A	N/A
N/A	N/A	33	N/C	?		N/A		N/A

it adds another dimension in terms of labor costs.

Paul Howell, coordinator for Food Marts and company-ops for Chevron U.S.A., says that 1,200-sq.ft., with the store underneath the canopy, is optimal for an island-type facility. "That's what we're building now," says Howell. "If you get bigger with a store, you start restricting traffic flow and what have you."

For some marketers, size is not an either/or proposition. These marketers feel local market situation, traffic patterns, etc., should determine a C-stores size and offerings.

"The local market dictates the size and type of stores we put in a location," says a Midwest jobber.

Dovetail offerings

Local market demand is a prime consideration for the more astute marketer in determining both size of store and its product mix.

"In the C-store market you can't broad brush it. You have to study your market and judge each C-store individually. Area and location play a role for the product mix in the C-store. You have to know your market and what your customers want," explains Englefield.

He says that one advantage of being a small marketer is that you're more flexible in terms of each location. The largest C-store he has is 2,000-sq.ft. Englefield offers fountain drinks, on-site deli preparation, hot

dogs, nachos and popcorn. The company is not big on other fast food items.

Katz adds that location can invariably determine what a marketer needs to offer consumers. He says, "Different locations might require different offerings. Keep it simple. Don't make it labor intensive."

Terry Crees, general manager, service station division, Giant Food Stores Inc., Phoenix, says marketers should thoroughly evaluate each market they plan to enter. "If we're in an area where the gasoline volumes tend to be in the 200,000 to 300,000-gal./mo. range, we're going more for the gasoline lines and we'll put in a smaller store," he says. "But if you're in a good, strong C-store area, obviously you're going to build a bigger store."

Some marketers, including some heavyweight oil companies, are also looking at market opportunities in areas that are being abandoned by many of the majors.

Don Olson, retail development manager for Cenex, a major farm co-op/petroleum marketer based in St. Paul, Minn., says the firm is expanding mostly in small towns with populations of 10,000 or less.

Cenex sees a growing attrition in the traditional services small town residents used to enjoy. For example, Olson says, many of the local restaurants can no longer survive economically in that environment. In effect, Cenex sees the opportunity to reestablish the "general store" concept in those smaller communities.

Unlike many majors, which are concentrating on major metropolitan areas, BP America figures it can do well in communities of 30,000-50,000 people "and smaller communities too," says Hugh Hanna. "The opportunities there are great."

Costs play a big role, too, in marketer decisions on locating their C-store properties. Marketers say, for example, that a store that goes for a million-plus in central Denver can be built in a small, rural area not too far away for half that cost.

Survival Keeps Getting Tougher In Competitive C-Store Market

Some of the most poignant and perceptive comments on the market forces influencing the convenience store industry come from John Roscoe, generally considered a skilled observer and analyst of the market. In addition to publishing his *Dollars Per Day Survey*, Roscoe is a former convenience store operator who now runs a string of discount food and liquor stores in California.

Many of Roscoe's opinions are founded on the premise that the simple and fundamental definition of a C-store is that it is a store which "charges higher prices than charged by mass marketers." It sells less goods for more money—just the opposite of the mass marketer, which sells more goods for less money. (Roscoe recalls an industry meeting where John Thompson, son of the man who founded Southland, said, "My father's contribution to this business was that he invented high prices.")

That's the key determining factor, Roscoe says, not a store's size, even though the industry consistently uses size to identify C-stores. "Store size is the result of the function being performed," he writes in his latest (the 18th annual) *Dollars Per Day Survey*. "It is not a distinguishing characteristic."

Some C-store operators lose sight of this, or never really fathom it, Roscoe writes; they just "don't understand the dynamics of a convenience store operation."

Roscoe goes on to say that the trend in retailing continues for the most part to be toward more efficiency—that is, selling more goods for less money. The mass market, he says, is price sensitive and represents about 90% of demand for most items today; the convenience segment, which fills the time and place function of retailing, represents only the remaining 10%.

"Years ago," Roscoe says, "the idea was that there were a lot of people who believed their time was worth more than their money." These were the primary customers for convenience stores. However, the vast majority of customers now, he says, consider their money to be at least as important as their time, if not more so.

Other factors compound the problem. Roscoe says, for instance, that one of the worse things about convenience stores is that they buy badly, paying a high price for the goods they sell. "When they talk about getting a 35% margin, they're talking about getting that on top of paying almost retail for their goods themselves."

That makes it difficult to compete against the mass market operator. "The mass market continues to get more efficient and, unfortunately, the convenience market gets more inefficient because the volume of their stores gets smaller, particularly if you adjust for inflation."

Everything is changing in the market, he says, but there are a lot of people out there doing the same things they did before.

These and other market forces will make it difficult for any convenience store operator to do well, Roscoe says, but the larger, spread out chains will have the toughest go of it.

"I think the cost of running a multi-state, enlarged convenience retail chain—the cost of administration and supervision—is too great for the productivity or the return

Market perils

Whatever the reasons jobbers' growing involvement with C-stores, a caution light should be flashing somewhere. The abundance of C-stores in many markets is reflected in industry statistics. Convenience store sales growth is slowing and margins are down. Meanwhile, the cost of building and operating a C-store continues to increase.

Fred Reid, vice president of operations, The Spencer Co.'s, Inc. says one huge deterrent to expansion is the initial investment. He says whereas a C-store was a $250,000 proposition in the mid-'80s, the cost today amounts to $500,000 and more and that doesn't even include the property.

In its *1989 State of the Convenience Store Industry* report, the National Assn. of Convenience Stores (NACS) shows total national convenience store sales increased by only 2.7%, from $59.6-billion in 1987 to $61.2-billion in 1988.

That's a sharp drop from the 10.7% increase registered in 1987 and even lower than the relatively small 4.9% increase of 1986. It's not even in the same ball park as the 12.7% increase back in 1985.

Despite the sales increase, small though it is, the NACS report shows total industry pre-tax profits dropped more than 11%, from $1,312-million in 1987 to $1,163-million in 1988. Average store profits fell from $19,200 in 1987 to $16,800 in 1988.

Even though the average gross profit margin increased from 24.4% to 26.2% of sales, the average pre-tax profit in 1988 fell to 1.9% of sales compared to 2.2% in 1987. A major reason is that operating expenses increased from 18.2% of sales in 1987 to 19.9% of sales. Also, "other expenses"

(Continued on page 49)

per unit."

The more stores they operate, he says, the more cost they incur per unit for supervision and administration. The price of control gets higher. "That's not the way it's supposed to be; it's supposed to get lower, but it doesn't."

The effects of this are showing. In this year's Survey, Roscoe gives some less than flattering appraisals of some of the top traditional C-store chains. In brief, they've got trouble. The only real compliment he had was for Casey's: "I visited them in May and was impressed with the way they had met their market. Most operators discount them. If you want to be in the convenience store business, you should study Casey's."

He's not exactly overwhelmed with the oil companies either. His evaluation: "Oil companies do not employ merchants or philosophers. You probably cannot awaken sleeping giants. Let us hope that they spend their millions on upgrading and remodeling programs without figuring out how to market."

Roscoe thinks the oil jobber probably has the best chance of successfully operating a C-store. The jobber knows his market well, he says, and has a good idea of the best locations for a C-store and can adapt the store to meet the needs of a specific locale. Jobbers who operate fewer stores in a smaller marketing area don't have the same high administrative and control problems plaguing the big chains.

A rural outlet where competition is not especially intense would be good. That's particularly true if the jobber owned the location and was simply converting a gasoline-only or traditional station to a C-store/pumper combination because property costs comprise such a large part of the rising price of installing a new unit.

But if a jobber has a good, valuable piece of property, is there a better use for it? Would the money he could sell it for plus the cost of putting up a C-store earn a better return somewhere else? These are the issues jobbers need to come to terms with. In short, the basic, most important question—one which many jobbers are apparently already asking themselves—is: "Do I really want to be in this business?"

If they opt to stick around, they should understand the kind of business they want to operate and incorporate practices that set them apart from others. Roscoe says, for instance, jobbers might operate as "merchants"—develop a good base of repeat customers, have return policies, use good, well-trained employees, have some low-cost items, understand and meet the specific needs of the clientele in the area, etc. But don't use giveaways and gimmicks, he cautions. That raises costs.

Roscoe also warns about fast food. "When you're talking fast food, you're talking Burger King, McDonalds, Kentucky Fried Chicken. The C-store might get some of that business but not a lot."

Roscoe says he's amazed when he reads about a C-store chain that's putting a lot of money and effort in fast foods and "'by 1992 expects to be getting 12% of their business from fast foods.' They're doing all they're doing to get fast food business and all it will be is 12% of their business?"

Besides, he says, it's labor intensive, and that raises costs. "You've got to keep costs down," he says. "Low cost units are the most successful."

He goes back to Casey's as an example. "Casey's does good a job," Roscoe says. "He keeps it simple. It has some fast food, like pizza. He may have made a mistake with chicken. [Editor's note: Casey's recently eliminated that item]. He knows his business. Its a minimal operation with relatively low cost."

(Continued from page 44)

chopped about 2.3% out of store operating profits last year, compared to 1.3% in 1987. NACS notes that these "other expenses" including interest expense. may have increased so much because of merger, acquisition and leverage buyout activity.

Of particular interest to jobbers adding new stores is that the investment for doing so is higher. The price tag for an urban store, says NACS, went from $682,800 in 1987 to $773,300 in 1988. The cost for opening a rural outlet also increased, but not nearly as much, from $517,400 to $532,700.

Nothing new in this. The trend for investment in a new store has consistently been in a northerly direction. Back in 1984, the price for an urban store was $496,200; for a rural site, $356,200.

Land costs comprised a major portion of those costs. For an urban store in 1988, the real estate cost was $350,500, nearly half of the total investment. For a rural location, it was $148,000, about one-third of the total.

The gasoline end of the C-store business looked good. Interestingly, in fact, most of the comparatively small increase in overall C-store sales last year came from gasoline sales, NACS reports.

Gasoline sales in 1988 comprised 39% of total C-store sales compared to 34% in 1987. These sales totaled $22-billion last year, 7.3% higher than in 1987. That compares to a 4.7% increase in gasoline sales recorded by gasoline service stations generally. NACS also points out that since the percentage of C-stores selling gasoline was about the same

The smaller "island marketer" type of C-store—generally those under 1,000-sq.ft. in size—has been popular among those major companies like Texaco, which want to stress gasoline sales. In today's market, however, there is a growing movement, especially among petroleum marketers, to full-size C-store locations such as Quiktrip's 3,200-sq.ft. units, which promote greater variety and high-margin fast food sales.

as in 1988 and gasoline prices last year were fairly stable, the increase can be attributed to greater volume coming from new and existing stores selling gasoline.

Average monthly gallonage per store in 1988 also increased to 51,000-gal. from 47,000 in 1987. Average dollar gasoline sales per store last year were $539,000, a 5.9% increase from the $509,000 in 1987. And the average margin on gasoline also improved, from 9.1¢/gal. in 1987 to 10.8¢/gal. in 1988.

Figures from the *Convenience Store News* 1989 industry report indicates gasoline sales played an even greater role in C-store sales. CSN says gasoline sales comprised 49.3% of total C-store sales—$40.7-billion in 1988 compared to $32.3-billion in 1987. The differences between statistics shown in the NACS and CSN annual reports can be accounted for by the fact that they are derived from differing sampling bases. The NACS study excludes the under 1,000-sq.ft. minimart operations, while CSN includes that

C-Stores Must Offer More, Meet Specific Market Needs

It's no secret that for years the traditional chains have built, dominated and controlled the fast-growing convenience store business. Today, however, the petroleum industry is aggressively staking out this territory with even larger and more well-stocked C-stores. This influx of petroleum firms into the C-store market is changing the face of the industry in both its product offerings and services.

Many industry observers say the trick to maintaining a profitable C-store in the '90s is tailoring it to that specific market.

Dan Katz, director of C-store marketing for Noble Tennant Advertising and Marketing Service, says the C-store of tomorrow, "wi l require different offerings for different neighborhoods. Catering your C-store to a specific community and knowing who your customer is will help increase profits both inside and out," says Katz.

With their abundant financial resources, many petroleum companies are increasing the size of their C-stores to make room for expansion into fast food operations, including deli bars and other self service items.

As noted in the main story, C-store outlets—particularly those operated by the majors—have historically been under 1,000-sq.ft., while the larger full-size (over 1,000-sq.ft.) units were owned by the traditional C-store industry. However, discussions with several petroleum firms reveal that today's marketplace philosophy appears to be suggesting that bigger is better.

Even some traditional chains are expanding store size. Southland, for instance, says its new prototypes are 3,000-sq.ft. Officials say this will give the chain larger working areas and "help in expanding its concept of convenience and service."

Marketers are expanding their C-store units to make room for a new variety of foods and other offerings, which includes more working space to provide these services. Providing a greater mix of food means marketers must either open or expand the size of their delis and other fast food bars.

Besides opening up more space for fast food operations, many marketers also are adding larger cold storage areas and bigger walk-in freezers. Observers also foresee larger C-stores to accommodate larger freezer sections designed for the fast-growing microwaveable product lines.

Other oil companies are making more room for videotape rentals, lottery tickets and ATMs because credit card transactions are expected to increase with brand loyalty, says one West Coast marketer.

Ashland marketing vice president, Jeff Howard, says Ashland wants to make room for more merchandise and in pressing these goals it has been adding more deli sandwiches and fast-food items, videotape rentals, ATMs and even in-store pharmacies to its locations. Ashland Oil's SuperAmerica stores are basically larger than its oil company competitors and even many of the traditional C-store chains. SuperAmerica stores range in size from 3,900 to 4,600-sq.ft, while the industry norm has been 2,000 to 2,500-sq.ft.

Jim Nickerson, director of operations for Morgan City, La.-based Berwick Bay sees credit card transactions playing an even greater role in the future. Shell, Texaco and Conoco-branded Berwick accrues as much as 55% of its gasoline volume via customer credit. And, he adds, brand allegiance is a benefit of credit card sales and will be even more so as the C-store industry expands.

Another Midwest marketer is expanding his C-stores to open up more space for on-site deli preparations, fast food bars (fried chicken, hot dogs, nachos, yogurt machines, fountain drinks, etc.), larger cold storage areas (cold juice, soda pop, ice cream, etc.) and bigger walk-in freezers. Industry observers also foresee larger C-stores in order to accommodate larger freezer sections designed to store microwaveable products.

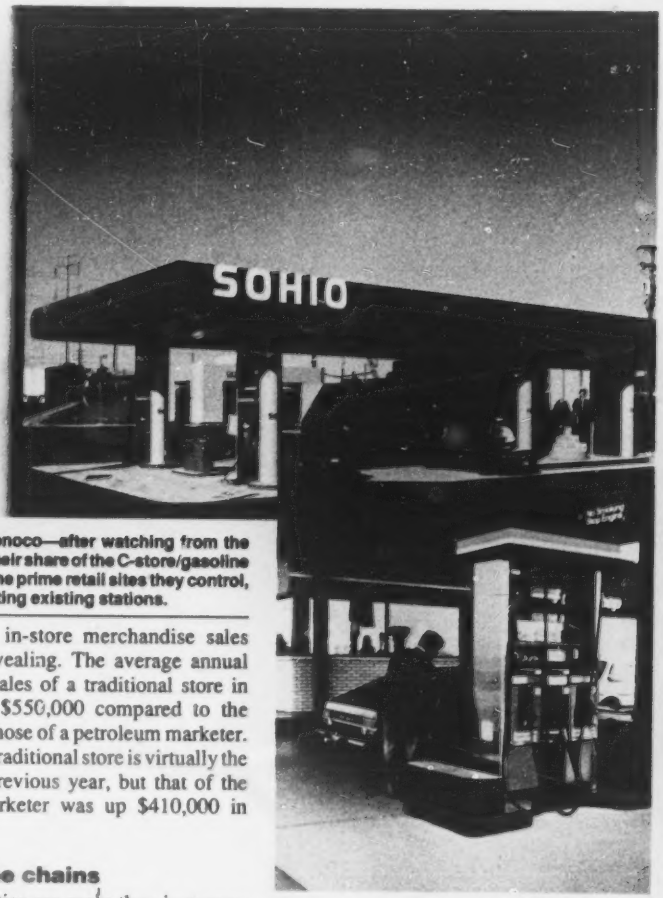
Doak Neal, president of Neal, Inc., San Antonio, Texas, says food service is becoming a marketwide force within the C-store realm. He says the trend is toward more expanded delis offering a mixture of deli delights including meats and cheeses.

Paul Howell, coordinator of food marts and company-ops for Chevron, says fast food is the item that's becoming most prominent now in convenience marketing. It's the new "niche" in the C-store business. "From a gasoline marketer's standpoint, we're not into food service as much as Arco, for example, primarily due to restrictions on our store sizes," Howell says. "You've got to have room to prepare food, whether it's pizza or hot dogs. But we're looking closely at it and we'll see where the market leads."

Howell thinks some oil companies, Chevron included, might start looking at fast food from another perspective. "We've always thought in the past that gasoline sells food and I think it does for the most part," he says. "But there are some locations where you have to consider the food first and be aware of what your competition is doing there. I'm sure it can work both ways. There are a lot of people who stop at Arco to buy a cheeseburger, first, and then fill up, rather than the other way around. If there's a changing trend, I think that's it, that the roles are being reversed a little bit. But it's going to take some time to change the thinking of gasoline marketers."

Though the trend is toward fast food operations, Homer McGinnis, president of Pride of Texas Dist. Co., in Arlington, cautions against expansion into food service. He says fast food is "a different business altogether" with its own set of problems.

Kyle Krause, vice president of finance for West Des Moines, Iowa-based Krause Gentle Corp., which currently has 137 Kum & Go C-stores, concurs. Krause says his company is building larger C-stores (2,400-sq.ft.) to make room for more fast food operations and cold storage areas.



Major oil companies such as Amoco, Sohio (BP America) and Conoco—after watching from the sidelines for many years—are now moving aggressively to expand their share of the C-store/gasoline market. The majors have a clear edge over many C-store firms with the prime retail sites they control, plus the resources they can pour into building new sites or converting existing stations.

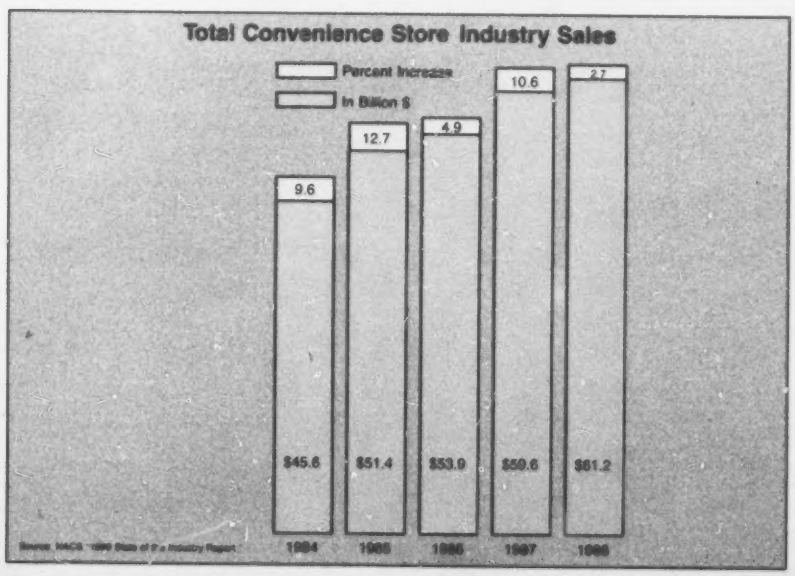
segment of the market. This could explain why, for example, CSN's industry count amounts to 82,500 stores, while NACS pegs the market at 69,200 units.

The CSN report shows, as would be expected, that far more petroleum marketer outlets pump gasoline (96%) than traditional outlets (63%) and do better at it. Average gallonage pumped among petroleum marketers last year was 844,000, compared to 520,700 for traditional operators. Petroleum marketers' gross margin on gasoline was 11%; for traditionals, 9%.

Figures on in-store merchandise sales were quite revealing. The average annual merchandise sales of a traditional store in 1988 totaled $550,000 compared to the $429,000 for those of a petroleum marketer. However, the traditional store is virtually the same as the previous year, but that of the petroleum marketer was up $410,000 in 1987.

Plight of the chains

These statistics are more than just numbers for most C-store chains—the figures reflect at least part of the reason why some of them are feeling the pinch.

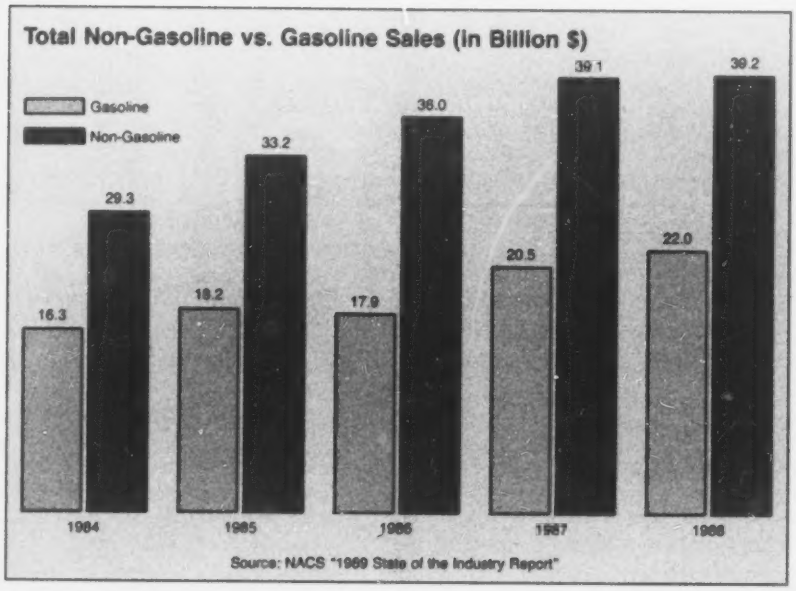


Southland, for example, is struggling with a $4-billion debt after the Thompson family took the company private in 1987. The cash squeeze must make it hard to find money to purchase good locations or adequately maintain facilities they currently operate.

In addition to selling off stores and other restructuring moves, Southland will also auction off its remaining 50% share of Citgo. Southland bought the company from Occidental Petroleum Corp. some time back, then several years ago sold a 50% interest in it to the Venezuelan government oil company. The remaining 50%, say some Wall Streeters, could go for about $700-million.

Meanwhile, Circle K officially put out the "For Sale" sign several months ago. The company isn't exactly teetering on the brink of financial ruin—it's the third biggest chain and markets about 1-billion gal of gasoline annually in addition to its groceries and fast foods.

Wasserstein, Perella & Co., the firm



retained by Circle K to help explore a possible restructuring, says "dozens" of inquiries have come in. but many industry people are taking that with a grain of salt. Ironically, the sheer size of the company is probably working against it—4,700 stores is a big bite to chew. The only parties with pockets big enough to take the whole package are the oil companies and although they are interested in acquiring outlets, they seem to be zeroing in on smaller chains in markets that dovetail nicely into their operations.

Smart money is on a leveraged buyout by Circle K's CEO, Karl Eller, who owns about 7% of the company and is generally credited with reviving it, and American Financial Corp., which owns about 34% of the company.

Crown Central's Candella believes oil companies have a great advantage in that they own their own properties by and large.

"C-store companies, many of them are leveraged to the hilt, with too few owned properties and too many stores tied up in sales/lease-back deals."

What happens here, explains Candella, is that a large C-store chain will buy a batch of stores then sell the properties to an investor on a lease-back arrangement to raise capital for store remodeling, etc. "But this means they can't sell those properties," he says.

Pros and cons

There's a continuing debate over which end of the C-store spectrum—traditional companies or the petroleum firms—are better equipped to meet the future needs of the marketplace.

Some observers, for instance, believe that C-store firms don't have the street-wise experience to market gasoline in competition with petroleum firms.

"It appears that traditional C-store's gasoline units are not keeping pace with the gasoline industry," says C-store industry authority John Roscoe. "The oil companies continue to improve and upgrade their units. Most convenience stores still operate outdated units. Gallonage in these units will continue to suffer as the majors build their new million dollar units," he adds.

On the other hand, traditional firms have plenty working for them too, say C-store executives.

"We are pretty well developed and we feel

Large independent oil companies like Diamond Shamrock, Coastal and Crown Central have staked out strong regional market positions with C-store outlets that rival the traditional chains in store size, product offerings and promotional sophistication.

Marketers and C-store chains alike are racing to provide larger stores with space for more equipment such as coolers, freezers, microwaves and the like. Fast food and deli-type operations offering in-house prepared foods, fresh baked goods, etc. represent the new frontier for many in C-store marketing. Such operations deliver high markups, but some marketers shy away from the labor intensive requirements of fast food service.

we are still experts in C-store marketing. We can't downplay their (majors) strength, but we are still a superior C-store merchandiser," says a Southland spokesperson.

Southland believes, like many of the other C-store companies, that it still has an edge over the majors because, "We have been selling gasoline longer than the majors have been in the C-store business." And, Southland insists, "We have an edge in C-store merchandising."

Some petroleum marketers concur. Michigan jobber Tod Butler says, "The C-store companies have to do a better job of marketing and merchandising their products to compete—and many of them do just that."

Gasoline marketers bring definite strength to the C-store business, says Phil Chisholm, executive director of the Petroleum Marketers Assn. of America. "They have the advantage of knowing their local markets. They usually have a lock on the prime real estate and they're now hiring grocery and C-store people to run their convenience operations," says Chisholm.

However, Chisholm throws a note of cau-

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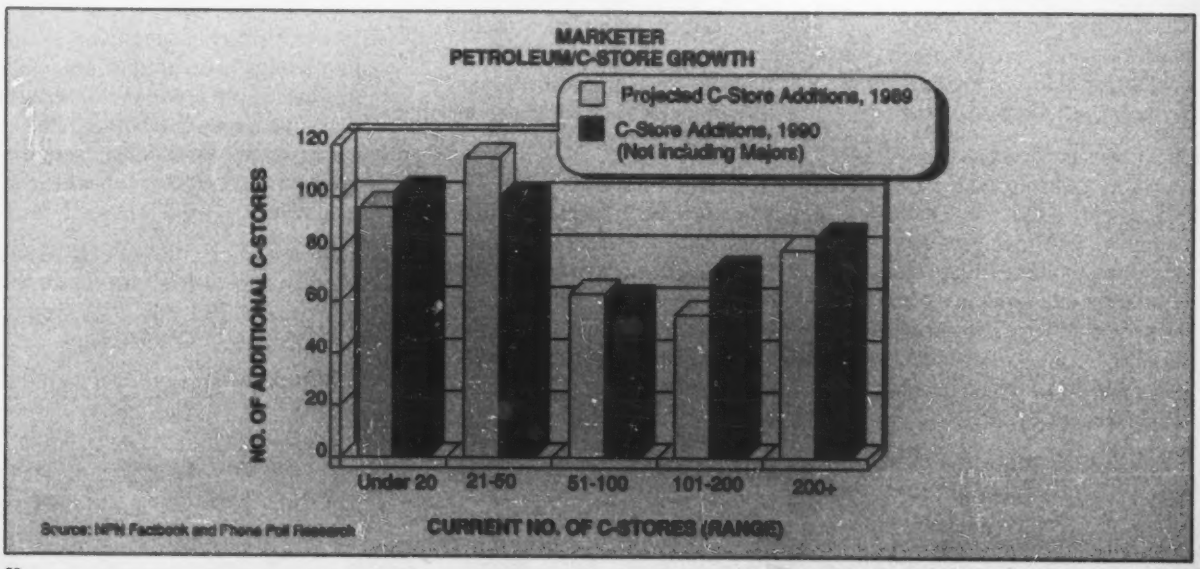

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tion into the debate. He says that marketers will have to be wary in the future, that saturation is occurring in some areas. "The C-store chains are overbuilt—in five years we could be in the same fix that occurred with the overbuilding of service stations." He adds that most C-store growth will probably occur among marketers who are already established in the business. "Those that are just getting in are seriously lagging behind in the industry growth curve," he says.

Some C-store executives concede oil firms have certain edges in the market. Jim Burkhalter, vice president, gasoline marketing manager for Sunshine Jr. Stores Inc., Panama City, Fla., says the companies have the resources, advertising budget, brand image and credit cards. However, Burkhalter also says that a company like Sunshine has a leg up on petroleum marketers because of its expertise in store operations.

One large independent says in order to succeed in the C-store business, petroleum marketers should hire the best C-store managers they can find. "C-store operators are much more detail oriented and have control and knowledge of merchandising. In order to succeed you need to get people with C-store experience. You can't use people with an oil background...."

On the other hand, Jim Hutchenson, manager of retail operations, Aztex Enterprises, a Knoxville, Tenn., petroleum marketer, believes his company has an edge on C-store chains "because we do it better. We emphasize customer service and we're attuned to the local market." He says, "the C-store companies are having problems because they tried to do too much too quick. They've created a management nightmare."

However, Hutchenson also suspects the professional capabilities of some major oil firms that are getting into the C-store business. He notes that several big new stores opened by majors in the area have relatively little stock on the shelves—very little in-store inventory. "How can they get their investment back?" he asks.

Another problem cited by industry observers is C-store/station layout. "One of the problems with marketers entering the C-store race is that the petroleum layout is designed to serve the gasoline station," says Dan Katz. "The C-store chains (Circle K, Southland, etc.) have installed pumps away from the food, letting the public know it's a C-store with gasoline, not a gasoline station selling C-store items," he notes.

Even though the majors have strong economic resources and prime locations, Southland officials, for instance, say its name recognition and Citgo gas market very well together.

In fact, one industry observer notes that "most of the sales at a gasoline station are impulse sales, while C-stores have people coming in for the convenience...The petroleum industry has a lot of work ahead of it to change the mentality of customers."

Even Roscoe cautions that success depends heavily on knowing exactly which of these businesses you actually operate—and that, he emphasizes, has nothing to do with the size of your store even though the industry uses that gauge. "Store size is the result of the function being performed. It is not a distinguishing characteristic." NN

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